WASHINGTON, DC (February 8, 2010) – Community banks and small businesses have reason to celebrate a recent Treasury Department decision to help Community Development Financial Institutions (CDFI) access capital so they are able to increase lending. Rep. Jan Schakowsky, D-IL, was the leading advocate for the policy change that will support job creation and small business growth by providing capital to CDFI banks and credit unions at affordable rates.

“Plain and simple, this is a jobs program. The funds from this program will go directly to the people and communities that need it most which will expedite hiring and rebuild a vibrant economy,” said Rep. Schakowsky. “Small businesses need this money now and people who are unemployed need help now. This program will meet the needs of both, and it will happen quickly.”

Under this program, strong institutions will be able to receive capital directly from Treasury under favorable terms. Those having a harder time meeting the eligibility requirements can receive federal dollars if they can find a matching investment from private funds, demonstrating the private markets faith in the viability of the bank or credit union. The flexibility of these terms is important in order to help CDFIs that are struggling in the current economy even though they played no role in the risky-banking activities that led to the current crisis. Institutions that wouldn’t otherwise be eligible to receive TARP money can now benefit from the program if they can match public money dollar for dollar with private investment. Also, the Treasury Department will lower eligibility standards, allowing less healthy banks to qualify if they can raise matching funds from private investors.

Matching is required for eligibility in order to determine the stability of the lending institutions; it is seen as an alternative way of determining viability. The loans will carry an interest rate of two percent, less than the five percent paid by other banks.

“Community banks and credit unions are dedicated to serving low and moderate income communities,” said Rep. Schakowsky. “These institutions are an essential component to our plan to reenergize the economy—but only if they have the capital that enables them to lend.”

Low-income communities feel a greater share of the burden in a declining economy as measured by higher unemployment rates, poverty and foreclosures. Consequently, financial institutions dedicated to serving low income communities need affordable and flexible capital to reverse economic decline, generate jobs, and create opportunity in places hardest hit by the recession.

“The community banks and credit unions have been historically well managed. They did not create the problems in financial markets, but they are left cleaning up the mess created by unscrupulous predatory lenders,” said Rep. Schakowsky. “Often, predatory lenders targeted their neighborhoods because of the economic and racial composition of residents – it is a tragic story that has played out throughout our country.”

ShoreBank, in Chicago, is one institution that could benefit from the program and use the funding to help local economic recovery. currently under-capitalized and must raise significant amounts of capital to continue their work that benefits communities. It is a perfect example of the type of quality institution that this policy will help. ShoreBank lends in the neighborhoods most abused by bad lending. Many of the neighborhoods they serve have foreclosure rates upwards of five percent and have experienced home price declines between 20 and 40 percent. Meanwhile, the average unemployment rate is double that of Chicago.

During 2008, ShoreBank's Midwest bank made over $175 million in loans to businesses, including multifamily housing developers, located in these communities or owned by minorities. Even with capital constraints in 2009, over 85 percent of ShoreBank's lending through September 30, 2009, has been in lower income communities or to minority borrowers. Providing institutions like ShoreBank with funding under this program will strengthen their ability to lend in hard-hit communities in order to save and create jobs.

ShoreBank needs to raise a significant amount of capital to work through the bank's existing portfolio problems and most importantly to be able to return to the level of lending, job creation and service to the communities that the bank was able to do in 2008 and earlier. If the bank were to receive 50 percent of the capital required from the Treasury through TARP, they could raise the rest from individuals, large banks and foundations. The policy change could save this bank and ease the hardships of many communities.

“The loss of CDFI banks would be devastating to any future lending in low income areas,” said Rep. Schakowsky. “Most of these banks are irreplaceable – if they failed, If we didn't make this policy change there wouldn't be anyone else to sweep in and save the day. Community banks and credit unions are our last stand, they are our last line of defense and a major offensive tool. We cannot let them fail.”